Nova Scotians *for* TAX FAIRNESS

Tax Fairly Spend Wisely

Budget Talks:
Recommendations for NS 2016 Budget

February 26, 2016

Honourable Randy Delorey
N.S. Minister of Finance and Treasury Board
Budget Talks,
P.O. Box 187, 1723 Hollis St.,
Halifax, N.S., B3J 2N3.

Dear Minister Delorey,

Your budget consultation discussions focussed on financial sustainability – which you have defined as our ability to pay for the services we require. Without clarifying exactly what you mean by this, you have implied that this means our ability to raise as much as we spend – i.e. to balance the budget. You have also assumed that it is not possible to raise taxes because they are high relative to other provinces.

We fundamentally disagree with both of these premises. Several of our recommendations flow from our view of these issues:

Financial sustainability: Debt to GDP ratio

Align with Federal Liberals

The Federal Liberals define financial sustainability as reducing our debt to GDP ratio and balancing the budget over the long term. NSTF believes Debt to GDP ratio is a smarter, more realistic way to talk about financial sustainability and we urge the NS government to adopt this approach taken by their Federal party. Many strong economies have much higher Debt to GDP ratios than the federal/NS combined ratio of 31% (Federal) plus 36% (NS), including Japan, the US, Germany and the UK.

Historically low interest rates

We also note that interest rates and therefore debt service payments are at historic lows. Borrowing can be done with low rates locked in for very long terms to avoid a rapid rise in debt servicing costs when interest rates eventually rise.

NS Context

During the 2013 election Premier McNeil wisely refused to promise balancing the budget by an arbitrary date. Your party stated that it would depend on the state of the books and the state of the economy. Some argue the public debt is the sole burden we will bequeath to our children so it must be reduced and eventually eliminated at all costs. However, as your government acknowledges, education directly affects the long term success of the next generation and we will also bequeath to our children many valuable assets, from highways and public buildings and wilderness areas to working forests in crown lands. Poverty creates long term problems for future generations. Reducing the debt is only one of many important public goals that will affect future Nova Scotians.

Recommendation 1: Use Nova Scotia's Debt to GDP ratio as the best indicator of sustainability

As you know, the public debt as a per cent of GDP is about 37%. This is much lower than the 48.7% it was in 2000.

Increase fair taxation and green taxation and reduce poverty

Nova Scotians recognize the need for investment in schools and universities, health care, poverty reduction and to green the economy while tackling climate change. They recognize the harm that cuts entail. They are willing to pay the taxes required to allow for re-investment and climate change action as long as they are assured that is what the money will be used for.

Time to Invest

Nova Scotia and the rest of Canada and the world economy continue to struggle with economic prosperity as commodity prices slump; our infrastructure deficit grows; uncertainties arising out of the 2008 financial crisis continue to echo through our economy; and there is a compelling need to keep temperature rise to well below 2^{o} C as agreed in Paris. The federal government has pledged to invest in infrastructure, social infrastructure and a green economy. The federal government will be investing in Canada's future. Now is also the time for Nova Scotia to invest in a green economy, in our people and in infrastructure. This is the best route to the future prosperity of Nova Scotians. Investments by the NS government are needed so Nova Scotia does not miss opportunities arising from federal investments.

A realistic assessment: As a society we produce **more than twice as much, per person** as we did 40 years ago yet inequality is increasing and we are told we now cannot "afford" the level of social programs we could then. This is nonsense. This false argument arises out of 2 trends since the 1980's. 1. The growth in real purchasing power has gone primarily to the upper 20 %; in particular, to the top 5 %. 2. From 1990 to 2005 taxes in Canada fell for middle and upper income Canadians while rising for the lowest 20%. By 2005 the lowest 20% paid roughly the same proportion of their income for taxes of all kinds as the wealthiest one percent.[i] Our governments can afford better services for all if the tax system reflects a just sharing of taxes.

Recommendation 2: Eliminate YERP and create a carbon tax and a carbon tax benefit.

The YERP (Your Energy Rebate Program) encourages higher fossil fuel use, the opposite of what is needed as Canada forges a new national climate action plan. With low oil prices and national climate action, now is the time to introduce carbon pricing. We support the elimination of YERP and application of a carbon tax with some of the revenue used to pay for a Carbon Tax Benefit or other compensation to help low and modest income households pay for their increased fuel costs. Some of the revenue should also be used to reduce GHGs through investments like transit. See the attachment on Carbon Pricing for more details.

Recommendation 3: Increase the ALTC, the PRTC and Income Assistance and reduce the effective tax rates on employment income for IA recipients.

The federal and provincial governments provide many support programs for those living in poverty. However, these supports still leave people with inadequate incomes. Nova Scotia should increase the Affordable Living Tax Credit (ALTC) and the Poverty Reduction Tax Credit (PRTC) and increase Income Assistance so that Nova Scotians no longer need to use food banks to survive.

Current social assistance rates leave low-income individuals and families with children hundreds of dollars per month below the point whether they can afford a minimally nutritious diet.[ii] Social assistance shelter rates in Nova Scotia have not been raised since 2006. On the other hand, an emerging consensus in the scholarly literature holds that "[social] investments made over the next few years could prove highly profitable, since it is recognized that reducing poverty leads to reduced costs for health care, the criminal justice system, social programs and so on, and increases the economic contribution of a part of the population whose talents are not currently being exploited to their full potential.[iii] Social assistance incomes (taking into account all applicable Federal income supports and provincial tax credits) should be increased to the Low-Income Cut-Off poverty lines within five years.

Claw-backs of support payments when the recipient finds alternative income, undermine the work incentive. For instance, in Nova Scotia, there is a 70 percent claw-back of Employment Support and Income Assistance (ESIA) payments on earnings over $250 ($300 for people with disabilities) a month. This is effectively a tax rate 50 per cent higher than the marginal tax rate for the wealthiest Canadians.

The north European nations provide much more realistic (i.e., higher) levels of support without the work disincentives in Canadian programs for the marginalized. Higher support gives an immediate boost to the economy and generates increased revenues to help pay for them because the people who receive it spend the money locally on immediate needs, creating jobs and income for others, which means income taxes for government.

<u>Recommendation 4</u>: Increase personal income taxes on higher incomes.
Nova Scotians are more willing to pay their share of taxes if they can see that the system is fair and that those who can afford it most easily are paying a higher proportion of their income. We strongly support keeping the 5th tax bracket starting at $150,000/year, adding new tax brackets and increasing the marginal tax rate by small amounts that increase as incomes increase. (The USA has seven PIT brackets.) We propose two new brackets at $375,000/year and $500,000/ year. We also propose adding additional brackets below $150,000 to increase the gradual progressivity of our income tax system. These measures will make our tax system more progressive but the top rate will remain far below historic levels in the 1950's and 1960's. These changes would produce much more than $40 million in increased revenue based on the Canadian Centre for Policy Alternative – Nova Scotia's 2016 calculations for smaller increases.[iv]

<u>Recommendation 5</u>: Assess income taxes on 100% of capital gains.
Some argue that Nova Scotia cannot do this without Federal participation because our tax collection is administered by the Canada Revenue Agency (CRA). This is debatable – Ontario's Mike Harris announced its intention to create a "made in Ontario" tax code.[v] Nova Scotia should take this approach. Announce your intention to make capital gains taxation fair in this way and negotiate this administrative change with the CRA.

<u>Recommendation 6</u>: Change tax deductions to refundable tax credits.
The income tax can be made more progressive by changing from a system of deductions from total income to a system of refundable tax credits at the lowest tax rates applied against the taxes due on total income. Deductions reduce the amount a taxpayer pays at their highest marginal rate. Someone in the highest bracket gets a higher benefit from a deduction than is available to people in lower brackets. If available as a refundable credit, everyone would get the same tax benefit. The amounts eligible for tax credits should also be reduced since to limit credits to amounts most Nova Scotians can afford. We recommend that you announce your intention to make tax collection fair in this way and negotiate the change with the CRA.

<u>Other tax measures</u>

<u>Recommendation 7:</u> Shift from property taxes to income taxes for municipal financing.
Municipalities have insufficient funds to pay for their essential services and they rely heavily on property taxes, which are a regressive unfair form of taxation. There should be a surcharge on the provincial tax payable, to be refunded directly to municipalities by the postal code of the tax filer. This is a "good" tax, as it is progressive, easy for the tax filer to prepare, imposes no great administrative burden on CRA, and the additional revenues for municipalities would allow them to lower property taxes and provide more or better services. In many European countries, the property tax is a minor part of the revenues of municipalities, less than 3 per cent in Sweden. Nova Scotia can be a leader in making this shift in municipal taxation.

Spend Wisely

It is equally important to NSTF that government spending be prudent and effective. There are now a growing number of measures that have been shown to reduce costs while also improving the lives of Canadians. Nova Scotia must invest in services that not only enable disadvantaged Nova Scotians to live a life with more dignity and social participation but which will also result in fiscal savings for the Province. Given the constrained fiscal environment in Nova Scotia, adopting a social investment approach not only makes sense but is one which we really cannot afford not to embrace. Several specific recommendations are listed below as examples. Some create savings very soon, while others create savings over a longer time. Recommendation 7 above is one example of "spending wisely". Others follow:

Recommendation 8: Invest in full day care, following Quebec's example.

Several studies have shown that when governments invest in day care, their investment is handsomely repaid. A comprehensive literature review carried out by TD Economics, concluded: "While governments at all levels are in no position to boost program spending at this time given budget constraints, this is one area that they should consider making a high priority over the medium term, as their finances move back into balance. Ultimately, investment in early education can help to address core economic and social challenges facing Canada. It can help reduce poverty, address skills shortages, improve productivity and innovation, and a host of other national priorities.[vi]

Recommendation 9: Invest in Housing First programs.

Studies have shown that the cost of permanent housing with support is less than the costs of policing, emergency and chronic health care and emergency accommodation for people who are homeless or at risk of becoming homeless, with targeted supports for the individuals in the program. [vii]

Recommendation 10: Invest in comprehensive disease prevention.

Nova Scotia has higher rates of heart disease and diabetes than most provinces and territories. Patients identified as high risk or already with the disease could be referred to well structured, coordinated system consisting of education and training and long term consistent follow-up to systematically reduce these high rates. This has proven effective in some US plans.

Recommendation 11: Invest in home care and community housing.

The use of hospital beds for those with chronic conditions awaiting permanent care beds is a chronic situation which results from a lack of supportive, community based housing and home care for people with disabilities. In the meantime, many people are held against their will in psychiatric and other institutions for no medical or legal reason—they remain detained against their will simply because they cannot afford adequate housing.[viii]

Conclusion

We believe it is time to take a different direction and that if tax increases are tied to specific improvements in programs and services, Nova Scotians will support this new direction.

Yours sincerely,

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ENDNOTES

[i] Lee, Marc. 2005. *Eroding Tax Fairness: Tax Incidence in Canada, 1990 to 2005*. Ottawa: Canadian Centre for Policy Alternatives. retrieved at policyalternatives.ca/sites/default/files/uploads/publications/_Office_Pubs/2007/Eroding_Tax_Fairness_web.pdf

[ii] Can Nova Scotians Afford to Eat Healthy?" (MSVU 2011)

[iii] "Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada" (Report of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities -November 2010) at page 249: http://www.parl.gc.ca/content/hoc/Committee/403/HUMA/Reports/RP4770921/humarp07/humarp07-e.pdf

[iv] CCPA 2016 NS Alternative Budget, page 115.

New NS rates proposed by NSTF:

17.67% from $75,000 to $93,000	(a new bracket 1% above the current rate)
19% from $93,001 to $120,000	(1.5% above the current rate)
20% from $120,001 to $150,000	(a new bracket 2.5% above the current rate)
24%from $150,001 to $375,000	(3% above the current rate)
26% from $375,001 to $500,000	(a new bracket 5% above the current rate)
28% from $500,001 upwards	(a new bracket 7% above the current rate)

[v] The Harris government stated it intended to create a "made for Ontario" tax system that would give them full control over their tax rates and deductions and reduce the inclusion rate for capital gains taxation to 50%**.** In the end, they did not follow through because the federal government made some of the changes they sought, including the lower capital gains inclusion rate. However, if Ontario Premier Mike Harris was willing to consider a provincial change in capital gains taxation there is no reason why NS can't do the same.

[vi] TD Economics: Special Report: *Early Childhood Education Has Widespread and Long Lasting Benefits* (Nov. 27, 2012) http://www.td.com/document/PDF/economics/special/di1112_EarlyChildhoodEducation.pdf

[vii] See the Mental Health Commission of Canada (MHCC), http://www.homelesshub.ca/Library/Beyond-Housing-At-Home-Chez-Soi-Early-Findings-Report-55032.aspx

[viii] See Mental Health Commission of Canada (2012)